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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45 ✓
Universal Service)	
)	
Forward-Looking Mechanism)	CC Docket No. 97-160
for High Cost Support for)	
Non-Rural LECs)	

REPLY COMMENTS
of the
RURAL TELEPHONE COALITION

I. INTRODUCTION

The Rural Telephone Coalition ("RTC")¹ submits the following reply comments in response to comments filed in the above-captioned proceeding, CC Docket No. 97-160.² In this docket, the Commission plans to examine issues related to the platform of a cost proxy model to be used as a forward-looking mechanism for high cost support. Comments filed on August 8, 1997, specifically address portions of the model containing

¹ The Rural Telephone Coalition is comprised of the National Rural Telecom Association (NRTA), the National Telephone Cooperative Association (NTCA), and the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO).

² See *Further Notice of Proposed Rulemaking ("FNPRM"), In the Matter of Federal-State Joint Board on Universal Service: Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Dockets 96-45 and 97-160, released July 18, 1997.

Rural Telephone Coalition, August 18, 1997

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switching, interoffice trunking, signaling, and local tandem investment information.

The RTC recognizes that the Commission intends to use comments filed in this proceeding to aid its effort in developing a forward-looking methodology for non-rural carriers.³ However, the RTC has concerns similar to those voiced by the Rural Utilities Service (RUS) and ITCs, Inc., in that the decisions made for a mechanism for large LECs may have a significant effect on future Commission decisions affecting rural LECs. In addition, as stated by ITCs, Inc., the rules resulting from this proceeding will apply to areas that are adjacent to, or even interwoven with, areas served by rural LECs.⁴ For these reasons, the RTC has consistently asked the Commission to consider the effect any potential model may have on rural telephone companies at the beginning of the selection process.⁵ The RTC, therefore, welcomes this opportunity to reply to comments filed in the first stage of this proceeding.

As stated in previous filings, the RTC is concerned about a potential Commission mandate to use any particular proxy model as a basis for universal service support, if such a model is based on a non-existent, optimally-configured, hypothetical network and cannot be proven to accurately calculate the true forward-looking costs of an existing

³ The Commission intends to issue a separate rulemaking to examine forward-looking mechanisms for rural LECs in October, 1998. *See Report and Order*, CC Docket No. 96-45, May 8, 1997, at para. 252.

⁴ ITCs, Inc. at 2.

⁵ *See*, for example, RTC Reply Comments, CC Docket 96-45, January 10, 1997, at 6.

carrier. Most LECs share this concern and continue to state in their comments that the use of a model's output based on a hypothetical scenario will understate the actual forward-looking costs of providing universal service.⁶ Indeed, AT&T and MCI plainly acknowledge the following:

Models are, of course, tools of estimation, and no model -- either a cost model or ILEC study -- can be expected to achieve absolute precision on all (or, indeed, any) fronts ... The Hatfield Model comes closest to the forward-looking, least cost engineering ideal ...⁷

The RTC disagrees that the Hatfield provides the most accurate estimations of forward-looking cost. Further, the RTC objects to the idea that the mandated use of forward-looking economic costs based on a hypothetical, non-existent network will send the correct signals to competitors. In that regard, the RTC agrees with the initial comments filed by the SBC LECs⁸ and concurs that the use of *actual* costs is most reasonable. In fact, the RTC has previously urged the Commission to ensure that any forward-looking cost methodology it develops as a basis for the universal service support mechanism would not entail the use of the forward-looking incremental costs the Commission believes the LEC *should* incur if it started each day from a "blank

⁶ See, for example, GTE at 1, Bell Atlantic and NYNEX at 1, and Ameritech at 2.

⁷ AT&T and MCI at 3-4.

⁸ Nevada Bell, Pacific Bell, and Southwestern Bell Telephone Company: collectively, "SBC LECs."

technological slate” instead of those forward-looking costs the LEC *will actually* incur.⁹ Nevertheless, the RTC also wishes to respond to specific comments filed here, regarding the switching mix, capacity constraints, and growth lines.

II. MIX OF HOST, STAND-ALONE, AND REMOTE SWITCHES

In its comments, the RUS agrees with the Commission’s tentative conclusion that the deployment of host-remote switching arrangements in lieu of stand-alone switches is more cost-effective and should be utilized within the selected model.¹⁰ The RTC agrees with the RUS and the Commission¹¹ that certain economies can be gained from host-remote switching arrangements, proving to be a more cost-effective option for many of its member companies. Hence the RTC agrees that any selected model should account for such arrangements within the platform.

However, the RTC also notes that the SBC LECs disagree with the Commission due to the fact that incumbent LEC 1996 depreciation filings were used as a basis for its tentative conclusion.¹² The RTC agrees with the SBC LECs that depreciation filings for this single year do not provide an adequate source of data to verify this tentative conclusion. In addition to the problems noted by the SBC LECs, the RTC also notes that

⁹ See *Petition for Reconsideration and Clarification of the RTC*, CC Docket No. 96-45, July 17, 1997, at 10.

¹⁰ RUS at 2.

¹¹ See *FNPRM* at para. 121.

¹² SBC LECs at 2.

these 1996 filings contain information on approximately one-third of the companies, as only one-third of the companies are reviewed each year. The Commission should, at the very least, look at other years to establish some sort of trend and allow for a cross-check against all filing carriers. Regardless, the RTC believes that the best solution, and the most accurate, would be to determine switching arrangements on an actual case-by-case, company-specific, basis. Commenters recognize that developing an algorithm to model the optimal, forward-looking mix of switch types “would be extremely difficult, at best.”¹³

AT&T and MCI state that these modeling difficulties cannot be overcome by looking to the embedded switch mix as a surrogate, since the embedded mix does not reflect forward-looking optimal network configurations.¹⁴ The RTC notes that the *FNPRM* recognizes that no current model’s algorithms can currently be shown to accurately estimate the “correct” forward-looking network for all carriers. This is because modelers are still making vast assumptions about some hypothetical, future network that is not in use. The RTC reiterates that it is opposed to use of a hypothetical network for *any* carrier, though the Commission seems bent on developing one in this proceeding.

The RTC urges to Commission to recognize that a true network is always a blend of the old and the new, with the new displacing the old when and where the economics

¹³ AT&T and MCI at 7.

¹⁴ *Id.* at 8.

justify the use of limited capital. Certainly, any model based on unlimited capital investment would be unreasonable. A model, if used for this purpose, must never rely on a simplistic flash-cut to the latest technology based on the most "cost-effective" use of that technology to meet all demand in an instantaneous, hypothetical manner. Such a network will never be constructed, and the development of any degree of competition will simply fragment the demand among the providers and their networks.¹⁵

III. CAPACITY CONSTRAINTS

In the *FNPRM*, the Commission tentatively concluded that the selected mechanism should assign more than one switch to a wire center whenever the mechanism predicts any one of a set of capacity constraints would be exceeded.¹⁶ The RTC agrees with those commenters that argue this approach is overly simplistic. As GTE states in its comments, "capacity constraints must be examined on a more disaggregated basis" than the study area as a whole.¹⁷ ITCs, Inc. points out there may be no "right answer" to the Commission's question concerning the "correct" capacity constraints. Instead, the question "leaves a marvelous opportunity for an entertaining but less than fruitful debate

¹⁵ The RTC has previously voiced the more general concern that the current models do not specifically address differing levels of market share. As the industry moves successfully toward competition and develops into markets of multiple network providers, levels of market share will vary. The selected model must account for potential multiple providers. See RTC Letter to John Morabito, CC Docket 96-45, January 7, 1997.

¹⁶ *FNPRM* at para. 124.

¹⁷ GTE at 13.

among engineers and manufacturers.”¹⁸ The RTC believes that this issue provides a perfect example of problems inherent in modeling the hypothetical, rather than using real-world switch placements. This is another reason why an alternative to the to-be-determined, mandated proxy must be considered.

IV. GROWTH LINES

Virtually all commenters, except for sponsors of the current Hatfield Model, support making allowances for the costs of “growth lines” within the model platform. For example, Bell Atlantic and NYNEX urge the Commission to include the cost of installing additional line capacity to an existing switch in its model, because “in many cases, adding growth lines to an existing switch is the correct economic choice even though the cost per-line for additional lines on installed switches is more than the cost per-line for a newly-installed [switch].”¹⁹

The RTC strongly supports the inclusion of a reasonable allowance for growth covering a specified time period. In that regard, the RTC notes that “growth” includes many different components such as the number of lines, projected changes in customer calling patterns, and holding times. Additionally, growth must be examined on a relevant geographic basis. Growth does not occur evenly across a study area. The RTC encourages the Commission to further examine how the model may appropriately account for growth lines so that the forward-looking cost includes the true lifetime cost of the

¹⁸ ITCs., Inc. at 5.

¹⁹ Bell Atlantic and NYNEX at 3-4. *See also*, RUS at 3, and BellSouth, US WEST, and Sprint at 5.

switch.

V. SWITCHING COSTS

In addition to problems mentioned above, commenters point out problems inherent in modeling switching costs. For example, Ameritech states:

Ameritech is concerned that any cost analysis that does not recognize the usage characteristic of a switch, but rather focuses solely on lines or ports, cannot accurately or reliably predict real world forward-looking economic costs of switching.²⁰

Unfortunately, model sponsors AT&T and MCI declare that any approach that requires additional data regarding switch prices -- by manufacturer and switch type -- is impossible because data is simply not available.²¹

Again, the Commission has hit upon the *underlying problem* with the proxy methodology. Based on comments filed thus far in this proceeding, the RTC remains unconvinced that a method for modeling costs can be developed in a way that is appropriately accurate for *all* carriers.

VI. TIMING ISSUE

The RTC is deeply concerned by the fact that neither the Commission nor the commenters discuss the timing issue in conjunction with the model platform. The RTC still believes that it is critical to address the question of how long the future proxy model runs can be used for calculating costs. In other words, how often will the model's data

²⁰ Ameritech at 6.

²¹ AT&T and MCI at 6.

runs can be used for calculating costs. In other words, how often will the model's data and assumptions be updated and by what process?²² There must be some plan for these desired updates of services and network elements before the Commission can properly assign even the platform of a yet-to-be-chosen model. If the Commission mandates the use of a cost model for any policy purpose, surely the model must be updated over time. The Commission has still not addressed this issue in any appropriate manner.

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THE RURAL TELEPHONE COALITION

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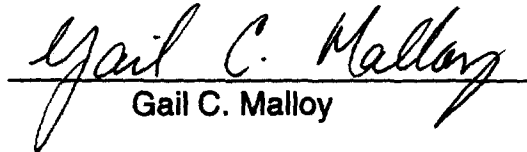
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²² See RTC Letter to John Morabito, CC Docket 96-45, January 7, 1997.

CERTIFICATE OF SERVICE

I, Gail C. Malloy, certify that a copy of the foregoing Reply Comments of the Rural Telephone Coalition in CC Docket No. 96-45 CC Docket No. 97-160 was served on this 18th day of August 1997, by first-class, U.S. Mail, postage prepaid, to the following persons on the attached list:


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